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# COMPETITION WATCH

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## CHARTER SCHOOLS SPREAD RAPIDLY

The charter school movement is taking off. Twenty-five states and the District of Columbia now authorize charter schools serving over 100,000 students in almost 500 charter schools across the country. More than 200 new charter schools began operations in 1996, and over 100 new schools have been proposed in three of the seven states that passed enabling legislation late in 1996 - Connecticut, New Jersey, and North Carolina. Charter schools are subject to virtually all of the state laws and regulations that govern public education, including special education, bilingual programs, and non-discriminatory access. However, charter schools are given more flexibility to implement curriculum changes and experiment with novel teaching strategies.

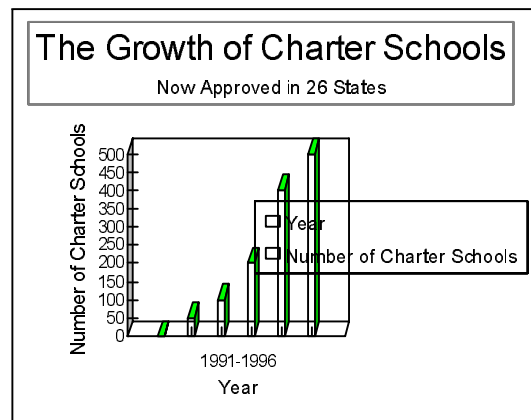
Like public schools, charter schools are funded by tax dollars. Students coming to a charter school typically bring with them the average cost-per-pupil of the district in which they live. Unlike public schools, no one--neither staff nor students--is assigned to a charter school. Charter schools are schools of choice and supporters say it is this element of choice and competition that makes charter schools accountable and distinguishes them from traditional public schools. According to founders of charter schools, if their school does not succeed, it closes. Supporters say choice and competition will force existing public schools to improve and become more responsive to parents to avoid losing their students.

A 1995 survey conducted by the Indianapolis-based Hudson Institute found that parents, students and teachers were very satisfied with charter schools, citing higher academic expectations, improved curriculum, one-on-one instruction, improved discipline and increased accountability. The approval of charter school legislation is shown in the following table:

Approval of Charter School Legislation	
Year	State
1991	Minnesota
1992	California
1993	Colorado, Georgia, Massachusetts, Michigan, New Mexico, Wisconsin
1994	Arizona, Hawaii, Kansas*
1995	Alaska, Arkansas*, Delaware, Louisiana, New Hampshire*, Rhode Island*, Texas, Wyoming*
1996	Connecticut*, Illinois, Florida, New Jersey*, North Carolina*, South Carolina*, Washington, D.C.
* No charter schools yet in operation	
Sources: The Heartland Institute & Center for Education Reform	

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“Charter schools represent a promising new direction in public education, one with the potential not merely to reform the system, but to transform it,” says Peter Barwick of Pennsylvania’s Commonwealth Foundation. The growth of charter schools, reported by the Center of Education Reform, has grown from zero in 1991 to 481 in 1996.



**Note:** For more information on charter schools, The Center for Education Reform is at 1001 Connecticut Avenue, NW, Washington, D.C. 20036. The Center, which published the National Charter School Directory in November 1996, can be reached at (202) 822-9000 or by e-mail at [cerd@aol.com](mailto:cerd@aol.com)

### **HAMPTON, VIRGINIA - A LESSON IN REINVENTION**

City employees in Hampton didn’t always do their jobs last year. Most of the city’s 1,300 employees participated in one or more of its 115 task forces, advisory groups, self-directed teams, committees and councils--doing work that was not their job. Why did Hampton’s employees do this? In part because City Manager Bob O’Neill wanted his people to know more about how various agencies really worked. Hundreds of employees seized the opportunity to work elsewhere within the city. The informal networking and connecting with people “means we’re more than just an organization of charts and boxes,” says Tharon Greene, Director of Human Resources. “A lot of us feel that by working this way we have a voice in where the organization is going.”

Why this change? Simply put, Hampton’s non-competitive fiscal and economic development structure and its “inside the box” standard issue bureaucracy was causing serious stagnation. Hampton was not competitive and when this realization sunk in, the City Council realized that they needed a city government that was more responsive to the community’s needs, innovative, flexible, and action-oriented. The council wrote O’Neill a performance contract that spelled out specific goals for city government. He began by telling his assistant city managers to stop micro managing their departments and to work instead on long-term strategic issues, and he gave directors full control over their agencies. By working with the city council to set clear goals, referred to as the “core” strategy, he put department heads on performance contracts that spelled out the results they were expected to produce and tied their bonuses to their achievements.

These efforts began to change the culture of Hampton government. The manager, council and hundreds of city employees worked together to develop vision and mission statements that described the purpose and role of city government. The new mission statement embodied the council’s view that government should become a broker of the community’s resources, not just a provider of

services and regulations. O'Neill reports that a majority of the employees liked the changes since the feel that they have been freed of constraints and can finally do their jobs the way they've always dreamed of doing them. The city created a program that allowed each department to develop awards for employee innovations and productivity improvements. The agencies shared 10 percent of annual savings with employees and instituted an annual bonus program based on a citizen satisfaction survey version of the "customer" strategy.

By the mid-1990s, Hampton was a big success. The city's financial indicators remained strong during the recession of the early 1990s. Downtown development had leaped forward. Property taxes, once high, were now among the lowest in Virginia. Debt payments had been cut in half. Citizen satisfaction with city government hovered around 90 percent. Employee morale, measured annually, was consistently high. Many employees believed a new culture had emerged.

The success of this cultural change was intertwined with the levers that would fundamentally change Hampton's bureaucratic behaviors and instincts, and reshape the organization with powerful transformation strategies. The following is a discussion of these strategies.

## **THE FIVE C'S: STRATEGIES FOR REINVENTING GOVERNMENT**

The five powerful strategies to transform the basic levers that shape a government organization or system - its purpose, incentives, accountability systems, power structure and organization culture:



### **THE CORE STRATEGY: CREATING CLARITY OF PURPOSE**

If an organization is unclear about its purpose, or has been given multiple and conflicting purposes, it cannot achieve high performance. The core strategy deals with the essential function of government: steering. It does so by creating new mechanisms to define goals and strategies, and it eliminates functions that no longer contribute to those goals.



### **THE CONSEQUENCES STRATEGY: CREATING CONSEQUENCES FOR PERFORMANCE**

The usual setup gives employees powerful reasons to follow the rules and keep their heads down--but not much motivation to improve results. This can be changed by creating consequences for producing results. When appropriate, public organizations can be pushed into a *competitive* marketplace where they have to earn their revenues from their customers. When that is not appropriate, contracting can be used to create *competition* between public and private organizations (or public and public organizations). When neither is appropriate, performance can be measured to create both positive and negative consequences, such as pay-for-performance, recognition awards or gainsharing bonuses.



### **THE CUSTOMER STRATEGY: PUTTING THE CUSTOMER IN THE DRIVER'S SEAT**

Public leaders can hold employees accountable for pleasing their customers by letting those customers choose their service-delivery organizations and setting customer service standards these organizations must meet.



### **THE CONTROL STRATEGY: SHIFTING CONTROL AWAY FROM THE TOP AND CENTER**

With a control strategy, organizations loosen the grip of the central administrative agencies, then give employees with front-line knowledge the authority to make decisions, respond to customers and solve problems.



An organization's culture is powerfully shaped by its purpose, incentives, accountability system and power structure. When you change these, the culture changes. But it's not always the kind of transformation leaders were hoping for. At times the metamorphosis tends toward resistance and resistance. Or the change may come too slowly to satisfy customers and policy makers. Hence, virtually every organization that has used the other strategies has eventually decided it needed a deliberate campaign to reshape the habits, hearts and minds of its employees.

## SELLING TAX LIENS

According to *Nation's Cities Weekly*, every year over \$10 billion in unpaid real estate taxes are owed to municipalities around the country. One solution to the problem of unpaid taxes is selling tax lien certificates to private companies, thus allowing governments to distribute 100 percent of their levy in advance of receiving it.

Through privatization, the municipality transfers the lien to the private sector in exchange for cash—usually the amount of the original taxes plus accrued interest and penalties. By purchasing the lien, the private firm assumes the risks of collecting the delinquent taxes. The private investor earns interest and penalties set by law for every month the taxes are unpaid and the investment is secured by a lien on the real property.

Sales of the tax certificates are completed through bulk purchase, assignments, sealed bid offers, or public auctions. All past due taxes, penalties and interest that have accumulated over the years are paid to the municipality by the purchasers of the liens. Tax liens are a low risk investment because they have priority over other liens.

Twenty-nine states currently allow the privatization of delinquent tax liens. In addition to the new cash flow to the general fund, there are other advantages to tax lien privatization. Privatization often results in fewer delinquent taxpayers since taxpayers are more forthcoming to a private collection agency. In Cook County, Illinois overdue taxes were over \$100 million. When the tax lien privatization was *announced*, delinquent taxes fell to \$68 million. In New York City, where \$250 million in tax liens were sold to a private investment trust, over \$200 million was paid by delinquent taxpayers during the two-month period after the announcement was first made.

## PRIVATIZATION BRIEFS

**Private Corrections Update** - In an innovative sale and leaseback arrangement, the District of Columbia agreed to sell one of its prisons to Corrections Corporation of America (CCA) for \$52 million. When the sale is complete the city will lease the prison back, with CCA running day-to-day operations, at a cost savings of more than \$9,000 per day. North Carolina recently announced completion of a deal to build two 500-bed medium security private prisons. U.S. Corrections Corporation signed a 10-year \$140 million contract to build and operate the two facilities.

Arkansas has signed a deal with Wackenhut Correction Corporation to build and operate the state's first two private prisons. In Youngstown, Ohio, Corrections Corporation of America has a contract to build a \$45 million medium security facility.

has begun the process of privatizing all of Boston's bus transit. Privatizing these services will save an expected \$13.5 million in 1997, and approximately \$27 million a year thereafter, an 18 percent cost reduction.

**Base Closures and Privatization** - The U.S. Navy and the City of Indianapolis recently finalized the largest and most complete privatization of any U. S. military facility. Operations at the Naval Air Warfare Center in Indianapolis have been turned over to Hughes Technical Service, a subsidiary of Hughes Aircraft. The contract will result in 2,300 people keeping their jobs, and should create 500 to 700 new jobs, generating business revenues likely to exceed \$1 billion over the next five years. The deal is expected to save the Pentagon \$1 billion over the next ten years while providing the Pentagon access to state-of-the art avionics and electronics technology.

**United States Military Privatizes Base Housing** - New legislation in the 1996 National Defense Authorization Act allows the military to contract with private firms to build new housing and repair existing structures. The legislation includes various measures to attract private capital to help finance military housing using nongovernment funds. The measures include guaranteed direct loans and investments such as limited partnerships or equity or debt instruments.

**Public-Private Health Care Partnerships** - The Los Angeles County Department of Health Services continues to pursue an expanding program of public-private partnerships. The county has contracted with 27 private companies to run 42 clinics and two hospitals. Fifteen more contracts are under negotiation with the aim to have all but seven of the county's 77 medical facilities managed by public-private partnerships.

***NOTE:** New Private Activity Bond Regulations by the Internal Revenue Service support privatization projects. Opportunities for the development of public-private partnerships are significantly expanded by these regulations. Please feel free to contact the Commonwealth Competition Council for a copy of a **brief summary of the new regulations.***

**Cleveland's Competition Program Gains Momentum** - Mayor White recently announced the city has chosen private firms to take over two city golf courses and six parking facilities, all of which are perennial money losers. Savings from the lease management arrangement with American Golf for the golf courses and APCOA, Inc., for the parking facilities, will be \$1 million a year for 15 years. No public employees will lose their job.

**Proposal to Sell Wisconsin's Public Utilities** - Wisconsin is considering selling some state-owned utilities valued at approximately \$193 million. Included in the list are 30 power plants and 18 sewage treatment plants. The chairman of the budget committee argues that because of changes in technology and demand, there is less reason than ever for the state to own and run its own utilities.

**Airport Privatization** - Two airport owners have issued RFP's for long-term leases, Allegheny County, Pennsylvania and Stewart Airport in New York State. Earlier this year, Johnson Controls won the bid to operate the New Haven, Connecticut airport bringing the number of privately operated domestic airports to 21.

**"PRIVATIZATION IS A TOOL THAT CAN HELP PUBLIC OFFICIALS PROVIDE ESSENTIAL SERVICES IN A COST-EFFECTIVE MANNER. PRIVATIZATION INCREASES COMPETITION AND COMPETITION INCREASES PRODUCTIVITY."**

### **COMPETITION WATCH**

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